Magna

LIFE SETTLEMENTS

Life Settlement Industry Report 2018

About Magna Life Settlements

Magna Life Settlements has been operating in the secondary market for life insurance for about 14 years and has closed thousands of life settlement transactions totaling billions of dollars in investor assets under management. The recent rising popularity of life settlements has produced an industry need for accurate, descriptive statistics and forecasting in the market. Magna is a leading figure in the life settlement industry, and, in keeping with this role, is uniquely positioned to offer insight into these topics. Magna's insider perspective enables a candid and experientially-based assessment that can take the pulse of the current market and explore discrepancies between past forecasts and subsequent realities.

In order to properly inform this report, information will be taken from Magna databases as well as external sources that include the US Census Bureau, The Deal, Conning, and The Life Insurers Fact Book. These various data sources are supplemented with Magna's industry experience and will provide a grounded and practical view of the market. We will use current and past data to generate projections for 2018 closing numbers. These projections are approximations.

A Brief History and Timeline of Life Settlements

Life settlements have been around for over 100 years and are characterized by several landmarks. The historical progression of life settlements can be roughly defined by four events:

1. **Grigsby v. Russell**
2. **The 1980s AIDS crisis**
3. **The "Great Recession"**
4. **Current resurgence**

Life settlements were legally established by a Supreme Court decision in 1911. In Grigsby v. Russell, 222 U.S. 149 (1911), life insurance was deemed to be an asset which carried with it all attendant rights of valuation and sale. Viatical settlements (the sale of a policy when the insured has two years or less to live) were somewhat popularized in the 1980s due to the U.S. AIDS epidemic and transitioned to a booming life settlements market in the early 2000s. But life settlements—much like every other industry—were dampened by the 2008 financial crisis due to lack of capital as well as inaccurate medical underwriting.

More recently, life settlements have been experiencing a renewal with updated medical underwriting models, excited investor interest and an expanding policy supply. The industry continues to rapidly grow.

Executive Summary

Life settlements is a resurging industry run by conscientious, smart professionals who are streamlining a once obscure market into an efficient, fair, beneficial and universally-recognized institution. Prices are equilibrating with healthy competition, regulation has caught up with market exuberance and outdated modes of transaction are phasing out in favor of faster, more accurate technology and the benefits of direct-to-consumer transactions. The industry is maturing into a permanent fixture of financial importance.

Summary of Findings

- **Projected 2018 market data:**
  - Average policy face value: $1.24 million.
  - Total face value of settled polices: $3.4 billion.
  - Total settlements: 2,722.
  - Top providers: Coventry First, Magna Life Settlements, Inc., Abacus Settlements LLC, GWG Life LLC, Settlement Group, Inc., Life Equity LLC.

- **Recent significant litigation**:
  - Class action lawsuit initiated against PHL Variable Life Insurance \ Company due to COI increase.
  - Class action lawsuit initiated against John Hancock Life Insurance Co. of New York due to COI increase.
  - AXA Equitable Life Insurance Co. sued by Alberta Investment Management due to COI increase.
  - Appellate court choice of law ruling regarding $6.65 million STOLI policy and differing contestability law between involved states favors investor interest.
  - New Jersey Supreme Court to decide whether contestability periods or STOLI fraud take precedent in determining the validity of a death benefit claim.

- **Growth positions:**
  - Demographics: An aging U.S. population poises market for increased policy supply.
  - Lifespans: Longer lives increase need for cash in retirement years, which accentuates interest in life settlements.
  - Improved medical underwriting: Greater accuracy in life expectancy predictions increases profitability and investor demand for policies.
  - Disintermediation: Gradually phasing out intermediators broadens policy supply and improves consumer satisfaction due to decreased transaction costs, increased consumer awareness and facilitation of direct-to-consumer business.
  - Increased capital investment: A current surplus of investor interest enables rapid policy acquisition and attracts more mainstream attention in the form of pension funds in addition to family funds and individual investors.
  - Regulatory reform: New federal tax rules incentivize life settlements for policy owners by magnifying potential gains, as well as raising the estate tax threshold, which is important for people who used life insurance as a hedge against estate tax burden.

Conclusion

The life settlement industry has surpassed the expectations of those who have attempted to forecast it. The 2016 Conning report predicted 1-2% growth per annum.[1] Instead, the market has experienced an average growth rate of 34% over the past few years. Forecasting predicted that the average annual volume of settlements would be $1.8 billion[2], whereas just last year the settlement volume was pegged at $2.83 billion[3] and is expected to be $3.4 billion this year. Undoubtedly, the life settlement industry is advancing rapidly on all fronts, and there is every reason to believe it has a bright future ahead.

[1] Life Settlements, Secondary Annuities, and Structured Settlements (Conning, Inc. publication, 2016).

[2] Ibid.

[3] Horowitz, Donna, "Life Settlement League Tables 2017: Market Grows 19%, Continues Upward Path," The Life Settlement Report, June 7, 2018.

The Market

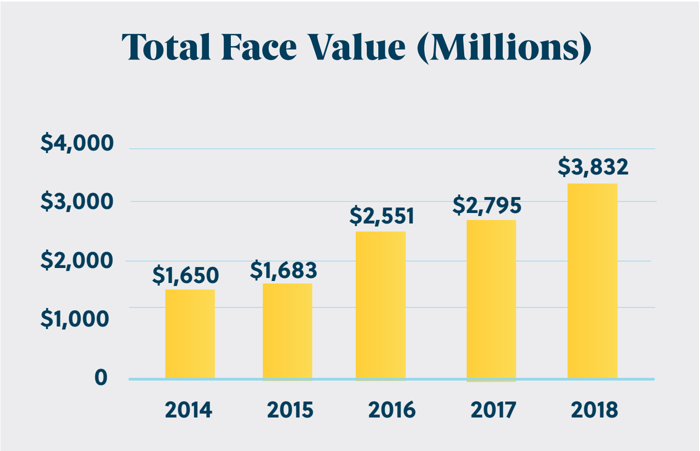
"It's important for consumers to go beyond the headlines and ask tough questions about any asset class, financial product or retirement planning option in order to separate fact from fiction. By that measure, the evidence is clear: the life settlements industry is a safe marketplace for American consumers who are considering an alternative to the lapse or surrender of their life insurance policies."

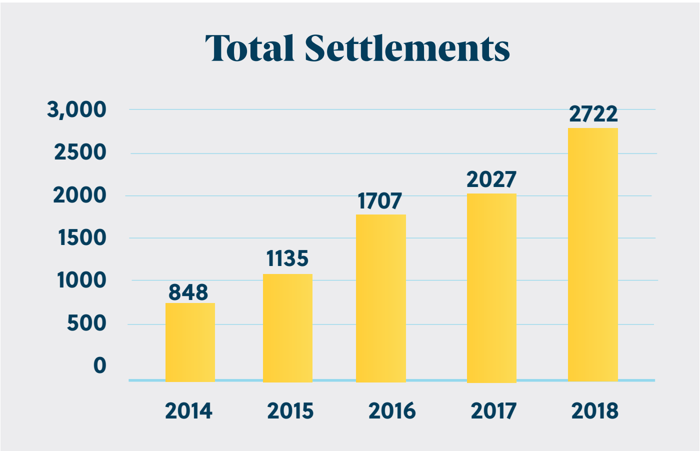
—Darwin Bayston, CEO, LISA,

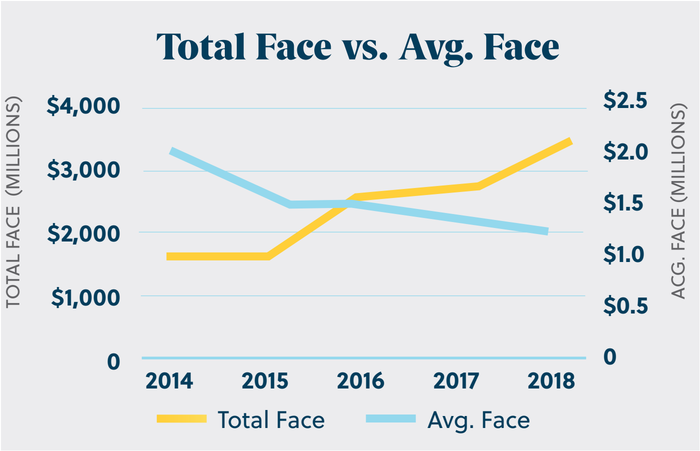
"Beyond the Headlines: Life Settlements Industry is Ethical and Regulated"

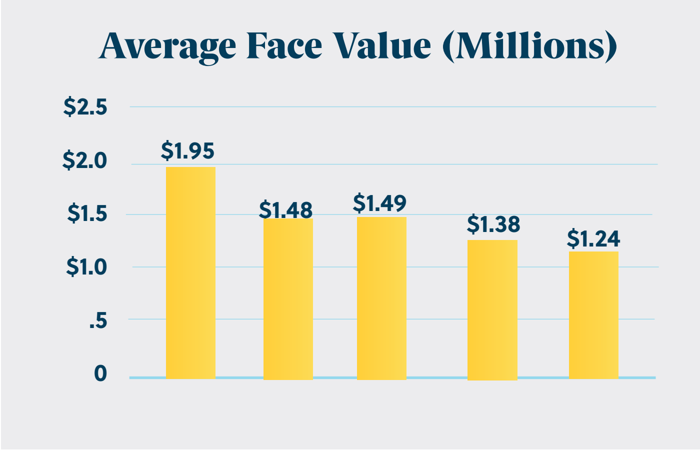
Activity

So far, 2018 has proven to be the most active year for life settlements in years. By every meaningful metric, the market has expanded. The total face value of annual settlements is projected at $3.4 billion by the end of 2018, up from $2.8 billion in 2017.









This lower average face value likely reflects in part the efficiency gains of direct-to-consumer efforts which have been ramping up to satisfy the market demand of sellers and investors alike. Despite the broader industry trend, Magna is expected to experience high average face values—perhaps over $2 million—in 2018 due to a combination of other external and internal factors. In the long run, it's expected that the industry average face values will continue to decrease with broker disintermediation, elimination of transaction costs and a general widening of the market. Conversely, the transaction volume has consistently increased—no doubt a result of the increased policy supply and investor demand. The fact that average face value is decreasing while total face value is increasing reflects the strength of gains in total transactions. Since 2014, total transactions have significantly increased every year, whereas total face value only experienced an approximate 2% increase from 2014 to 2015. This discrepancy is due to the significant decline in average face value between those years which attenuated the total face value gains expected from the increase in total transactions. If the average face value continues to decline, then total transactions will have to increase at a compensatory rate in order to retain the positive trend in total face value.

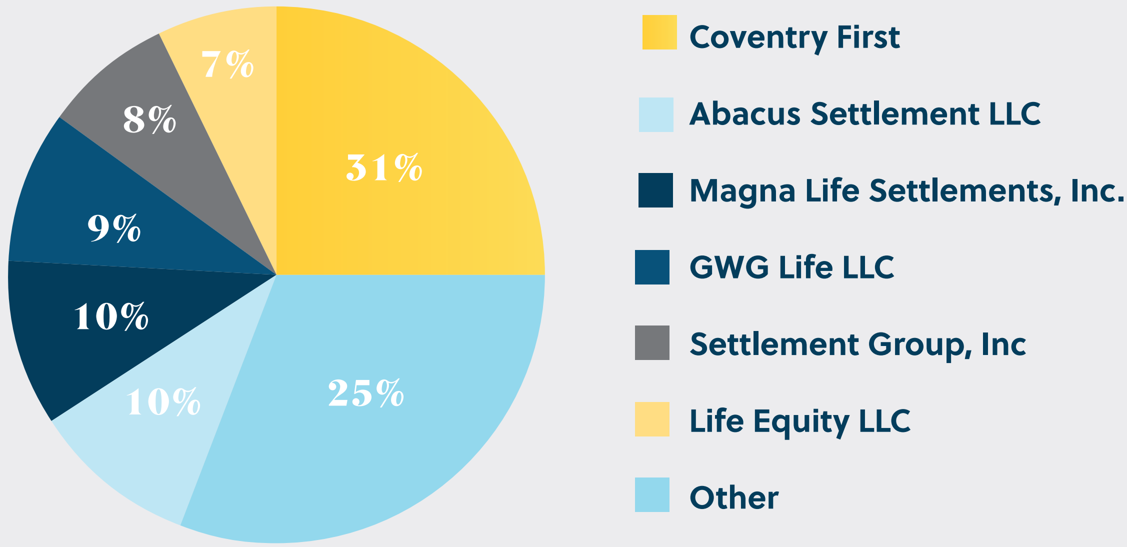
In comparison to predicted growth from sources such as the 2016 Conning report, actual growth has far exceeded expectations. About $1.7 billion in face was predicted to be transacted in 2016[4] when in fact $2.5 billion was transacted.[5] Similarly, in 2017, less than $1.8 billion was expected[6], but $2.8 billion was realized. These predictions have grossly underestimated the actual level of market activity due to Conning's estimate of 1-2% market growth per year. Those growth numbers are manifestly inaccurate; the market is growing at a much faster rate. In fact, in 2015, the market grew by 34%, 50% in 2016, and 19% in 2017. Conclusively, this industry resurgence is consistently exceeding expectations.

Competition

Competition has been strong in the secondary market for life insurance. In 2016, there were 31 settlement providers, and the top 6 collectively held about a 70% market share (based on total settlements). In 2017 there were 28 settlement providers[7] operating in the marketplace, of which the top 6 providers collectively held about a 75% market share. It is not clear what the 2018 market shares will look like, but given the previous year it is evident which providers[8] will probably be in the top six. However, the projected increase in settlement volumes indicates there's great opportunity for innovative market participants to climb the competitive ladder.

[4] Life Settlements (footnote 1). [5] Horowitz, "Life Settlements League Tables" (footnote 3).
[6] Life Settlements (footnote 1). [7] Horowitz, "Life Settlements League Tables" (footnote 3). [8] Ibid.

Market Shares 2017



Despite the market leaders at the helm, there still seems to be a reasonable level of diversity. In fact, there has been enough healthy competition that policy prices are normalizing across providers and obviating the need for policy owners or brokers to shop policies around for a good price. This price stabilizing effect is benefiting consumers who no longer have to operate through a broker channel with its attendant fees, and instead can directly contact their preferred provider and settle for a fair price.

Investment

Life settlement investments, otherwise known as longevity assets, are known among many astute investors as an excellent alternative asset class which generally provides high returns with relatively low risk. Further, they are known to be largely uncorrelated to stocks and bonds. These advantageous factors regularly draw a wide variety of interested capital to the table, ranging from individual to institutional investors. Just this year, Ress Capital, an open-ended fund listed on NASDAQ and based in Copenhagen, started directly investing in longevity assets.[9] Prior to that, the Memphis pension board decided to invest $30 million in Corry Capital and Vida Capital, two longevity investment funds. Within two years, the same pension board decided to invest $28 million more.[10]

The attraction of institutional investors to life settlements has proved to be a tacit recognition of their safe and steady returns. In fact, some life settlement funds have experienced internal rates of return as high as 20%. Although life settlements are uncorrelated, they of course still have sources of risk. The three main risk categories can be summarized as follows:

1. **Basic Risk**
2. **Longevity Risk**
3. **Liquidity Risk**

Basis risk can take several forms. Sometimes, a life insurance carrier will decide to raise premiums to defray losses from unexpected rates of mortality among insureds. This would significantly affect the profitability of affected policies for investors and is always a potential source of litigation. Other times carriers will contest the legal validity of a policy under suspicion of fraud. The insurable interest doctrine dictates that when first purchasing life insurance from a carrier one must have insurable interest in the life of the insured. Strangers will occasionally purchase a policy for an insured in whom they hold no insurable interest. This is known as

[9] Horowitz, Donna, "Ress Life Begins Investing Directly in Life Settlements," The Life Settlement Report, Jan. 3, 2018..

[10] Horowitz, Donna, "Memphis Pension Board Makes New Investment in Corry, Vida," The Life Settlement Report, Feb. 22, 2018.

Stranger-Originated Life Insurance (STOLI). According to some state's regulations, these policies are either void ab initio (void from inception), or at the very least subject to a contestability period during which the legal validity can be challenged.

Longevity risk is perhaps the most immediate and common type of risk. When an insured outlives their life expectancy, the calculus used to price the policy on the secondary market becomes inaccurate. Consequently, the estimated return is attenuated and investors experience decreased returns. Sometimes the insured passes before the expected date, and returns are bolstered.

Longevity risk is perhaps the most immediate and common type of risk.

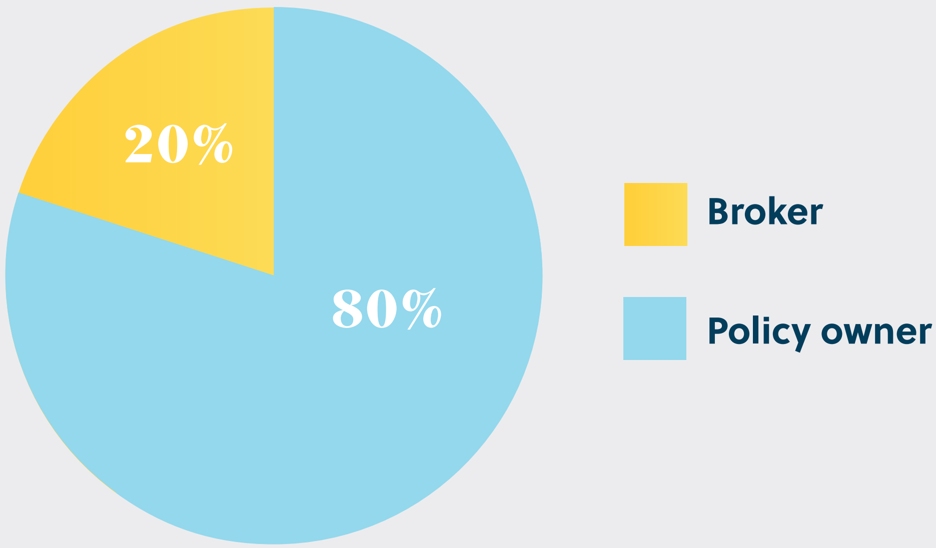
Liquidity risk is, in part, a byproduct of the novel nature of longevity assets. Specifically, because this asset requires periodic premium payments, the need for capital to maintain the portfolio's value can be strongly felt. If investors wish to withdraw their funds it can undermine the portfolio by potentially forcing lapses.

Despite these dangers, all three sources of risk can be managed and are collectively much less risky than many other types of investments. Basis risk can be mitigated through a strong legal arm and thorough due diligence. Further, when policies are purchased, the risks associated with the state of issuance are sometimes built into pricing models. Longevity risk can be managed through realistic life expectancy estimates which tend to err on the side of caution. As industry experience deepens and increasingly accurate underwriting algorithms are developed, this source of risk is continually shrinking. Liquidity risk is largely negated with a strong tertiary market that enables quick and easy sale of policies within a portfolio. These risk management strategies, coupled with robust rates of return, make life settlements very popular for many investors.

Trends

The dominant theme of the life settlement market over the past year has been disintermediation. Settlement providers have been steadily improving operational efficiency to eliminate transaction costs and improve the value proposition of a life settlement for both parties. Traditionally, life settlements have been intermediated by various players, including brokers and other financial agents. In the nascent stages of the market arbitrage opportunities were plentiful, and brokerage firms provided consumers with valuable pricing information. Instead of potentially settling for a subpar price, a consumer could consult a broker and maybe find a higher price for their policy.

Settlement Proceeds With Intermedation



However, these intermediating services have been both a benefit and a drawback for policy owners. On the one hand, brokers have generally enabled policy owners to get the best price for their settlement because of interest-aligning fee structures and a clear fiduciary duty; on the other hand, they have taken a significant portion of the value of the policy as compensation for their services. In fact, brokers will sometimes take up to 30% of the settlement proceeds. The net effect is that policy owners often receive less than they could have because the difference in price obtained by the broker is consumed by their fees.

In fact, brokers will sometimes take up to 30% of the settlement proceeds.

As the market matures and provider quotes increasingly reflect real market values, the arbitrage-seeking services of brokers are no longer needed. And as transactional costs are cut, more money is available for the policy owner. In a word, the market is becoming more efficient.

The industry trend of disintermediation is really part of the wider economic philosophy of "Uberisation," which is the idea of monetizing unused or unappreciated assets via peer-to-peer transactions. Life settlements manifest this growing trend. The often unknown asset, a life insurance policy, is suddenly converted to a windfall, and the increasing disintermediation between buyer and seller cuts transaction costs. Complementary to this trend is the development of free online applications to aid consumers engaging in the market. A profusion of online policy calculators has flooded the internet, allowing consumers to generate a rough estimation of what providers are willing to pay for a given policy. For those without internet access, phone assistance is widely available, enabling personal contact and guidance throughout the process. These services facilitate the emerging peer-to-peer characteristics of the market and enhance consumer utility.

A profusion of online policy calculators has flooded the internet.

Another consequence of the direct-to-consumer initiative is a focus on advertising. As early as 2015, some providers started an aggressive advertising campaign using TV, social media and other online outlets to promote consumer awareness. These efforts have had a positive effect on the entire industry. Providers are realizing greater profits through a surge in transactions, and policy owners who were previously unaware of the settlement option are now able to take advantage of its many benefits. In short, the trends of life settlements are positive, manifesting in ever more efficient market transactions, vigorous consumer awareness campaigns and rapid growth.

Regulatory and Legal Landscape

"Any serious participant in the life settlement market welcomes strong regulation. This is because laws enacted to protect consumers against STOLI are also good for the integrity of the underlying investment in the life settlement space. Today we rarely see STOLI policies, and this strengthens investor portfolios. What we do not see, however, is uniformity across states and jurisdictions regarding contestability, waiting periods and disclosures. The life settlement space would benefit greatly from predictability in the area in which we have the least control – laws and regulations."

—David Serra, President and General Counsel,
Magna Life Settlements

The regulatory landscape is an uneven one in the life settlement industry; some statutes or administrative codes are beneficial to the market and its participants, and others are damaging to them. In order to demarcate these two categories, it is helpful to recognize the varying sources of legislative momentum. These sources could be roughly divided into three groups:

1. **State Regulators**
2. **Life Insurance Lobbyists**
3. **Life Settlement Lobbyists**

Not many people know of life settlements—let alone have a practical knowledge of them—and rulemakers are no exception. This presents a problem, as government bureaucracies will often unwittingly impede the market with administrative codes under the banner of consumer protection.

Life insurance lobbyists are natural enemies of the market and tend to undermine it in any way they can. Every life settlement is a death benefit they have to pay and represents lost profit from a policy that probably would have lapsed. Consequently, most legislation pushed by life insurance lobbyists is purposefully subversive to the market.

Life settlement lobbyists are motivated to grow the market and level the playing field such that consumers are optimally placed to settle if they no longer need or want their life insurance. Further, there is strong interest in eradicating STOLI and other forms of fraud. In order to attract broad investor interest, life settlements must be properly regulated to ensure safety and fairness.

Good Regulation

Although much of existing life settlement regulation is inhibitory to the market, there is a portion that protects consumers and enhances market utility. Among these beneficial items are clear carrier disclosure requirements and contestability periods.

Carrier disclosure requirements refer to government-mandated disclosure of the life settlement option by life insurance carriers to consumers. Nine states had this statute on their books by the middle of 2018. Consumer awareness is one of the limiting factors of the life settlement market, so any effort to increase market information in that respect is valuable to the consumer and settlement provider. In some states such as Georgia, Texas, and Rhode Island, this legislation has recently been pushed by life settlement lobbyists with varying degrees of success. Oftentimes it is either squashed or gutted and rendered ineffectual by opposing interests.

Contestability periods set the window of opportunity within which courts will recognize a carrier's attempt to challenge the legal validity of a policy. These time periods incentivize carriers to quickly identify and contest fraudulent or STOLI policies they themselves have issued. In states where this regulatory scheme is not in place, carriers will often collect premium payments from a given STOLI policy, and when the insured dies years later and the death benefit is requested, they will declare the policy fraudulent and refuse to pay the death benefit.

In states where this regulatory scheme is not in place, carriers will often collect premium payments.

Without contestability periods, carriers can eat their cake and have it too; they can reap the rewards of treating a policy as legally valid by enjoying years of premium payments, but when collection time comes for the death benefit, they refuse on the basis of fraud. Contestability periods generally prevent this perverse outcome by restricting policy contests to a specified time period—usually the first two years from policy issuance—during which a carrier can void a policy through litigation. However, even with contestability periods on the books, some states still allow fraudulent policies to be challenged past two years under the interpretation that fraud invalidates contestability period protection.

Bad Regulation

There are a number of regulations that tend to depress the market, but two in particular seem to be especially onerous: mandated minimum payments and bond requirements.

Minimum payments generally affect viatical settlements and are seen in several states' laws. As the name implies, this regulation stipulates the minimum amount a provider must pay a policy owner for a viatical settlement. The minimum payment is contingent on the life expectancy of the insured, with life expectancies of six months or less sometimes being required to sell for around 80% of face. This can be problematic for policy owners whose life expectancy falls under the viatical category, because the minimum payment can price them out of the market. Life settlements experience fixed transaction costs, so policies with lower face values are less likely to provide good returns. With minimum payments, many policies that would otherwise price are no longer salable, and applicable law does not permit a policy owner to sell for a price below the minimum even if they want to. For example, an insured could have a 24 month life expectancy and own a policy that has a face value of $100,000. A life expectancy of that length would likely require a minimum payment equal to 50% of the face value, $50,000.

Depending on the cost structure of the policy, the highest a provider could reasonably offer might be $40,000. In this scenario, the insured would rather have $40,000 than nothing, yet they would be unable to accept that price because it is below the 50% threshold. Consequently, the insured would be forced to surrender their policy back to the carrier for pennies on the dollar. As with most price floors, minimum payments for life settlements create a market inefficiency that's inimical to both buyers and sellers. With the many life settlement providers in the market today, a fair price can be obtained through online shopping and competitive bidding. The spirit behind minimum payments might be a noble one, but their effect is to prevent sales that would otherwise be amenable to both buyer and seller.

Exorbitant bond requirements act as a barrier to entry in the life settlement market for providers and brokers, but especially for brokers who operate independently of a larger firm. When these brokers have to maintain bonds as high as a quarter million dollars, it reduces the total number able to operate. Further, it reduces the amount of states in which a broker might be licensed. This is a negative outcome for both policy owners and providers. The result is that policy owners have narrowed access to the market, and providers experience a diminished flow of policies. Barriers to entry also inhibit competition by decreasing market participants, so it follows that broker fees would be higher. While it is true that there is essentially an industry-wide, direct-to-consumer initiative, a very large part of policy flow still comes from brokers. The ultimate effect of costly bond requirements is to shrink the market and promote monopolistic tendencies.

Changes in Regulation and New Litigation

Several sources of litigation have arisen in 2018:

1. PHL Variable Life Insurance Company was hit with a class action suit for increasing the cost of insurance. The plaintiff claimed the COI increases were unlawful and discriminatory.

2. John Hancock Life Insurance Co. of New York was also subject to a class action suit for increasing COI by as much as 71% on some universal life policies. These increases have been disastrous for individual policy owners and chilling for investors, with about 1,500 performance universal life policies affected. Again, the plaintiff claimed the increases were discriminatory.

3. AXA Equitable Life Insurance Co. was sued by Alberta Investment Management due to a 40% COI increase. Plaintiffs claim these hikes are not necessary and are simply an instance of insurance carriers squeezing policy owners for cash out of bad faith.

4. In a recent appellate court ruling on a $6.65 million STOLI policy, choice of law had everything to do with policy validity. New York law forbids policy challenges after the contestability period ends—even in the case of STOLI. However, New Jersey allows challenges for fraud if a policy is STOLI. Due in part to the policy owner's New York residency, the appellate court ruled that New York law should apply due to a 'center of gravity' principle regarding what state figured most prominently in the life of the policy. The application of New York law recognizing the elapsed two year contestability period quashed the challenge.

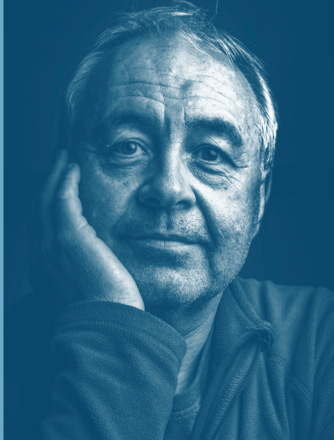
5. The New Jersey Supreme Court is deciding a STOLI case punted from the 3rd Circuit Court of Appeals. The primary issue is whether New Jersey will honor the policy's contestability period and let the owner collect the death benefit, or let the insurer void the policy due to its fraudulent origin and escape the obligation. The secondary issue is whether the current owner will receive any, some or all of the premiums paid into the policy if it is declared void ab initio. The outcome of this case will be a powerful precedent for future life settlement litigation in New Jersey.

Fewer significant changes in state regulation have occurred, though there were two of note:

1. Rhode Island passed in committee a robust consumer disclosure bill. However, the final bill that passed both houses was drastically different from its original form. What was once a strong bill that required insurers to directly notify policy owners of the life settlement option amounted to nothing more than a symbolic victory. By the time the bill passed both the House and Senate, insurers merely had to point policy owners to a website which contained information about life settlements.

2. Delaware revoked its $250,000 broker bond requirement. The measure was approved by both house and senate and signed by the governor.

Consumer Trends



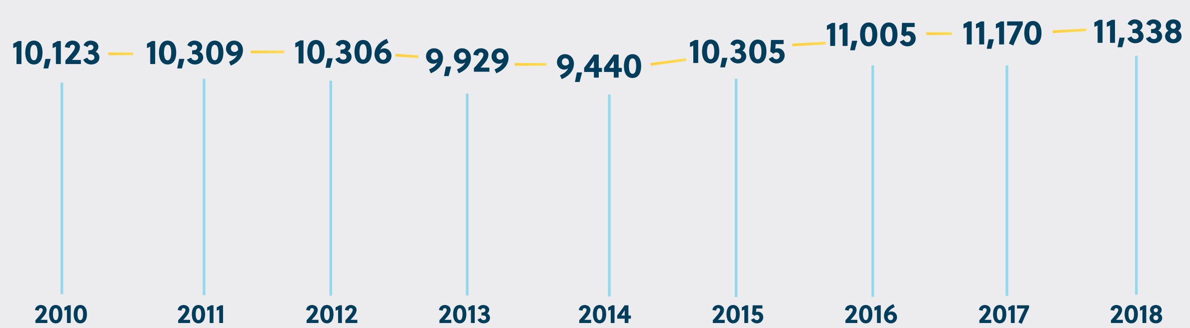
"According to research from the Insurance Studies Institute, more than 500,000 seniors lapse their life insurance policy annually, and only 1,250 take advantage of a life settlement. That means we've only penetrated about 0.25% of the addressable market. As seniors live longer, experience more health issues, and seek new sources of liquidity, they need advocates to help them understand the facts and benefits regarding the sale of their life insurance policies."

-Scott Harris, CMO, Magna Life Settlements

Policy Breakdown

Compared to the secondary market for life insurance, the primary market is massive. In fact, Conning suggests that policies resulting in life settlements represent less than 1% of all policies issued by carriers.[11] There is immense potential for a broadening and deepening of policy supply to the secondary market. In 2016, roughly 11 million policies were issued to individuals[12], and, extrapolating growth data since 2010, about 11.3 million will be issued by the end of 2018.

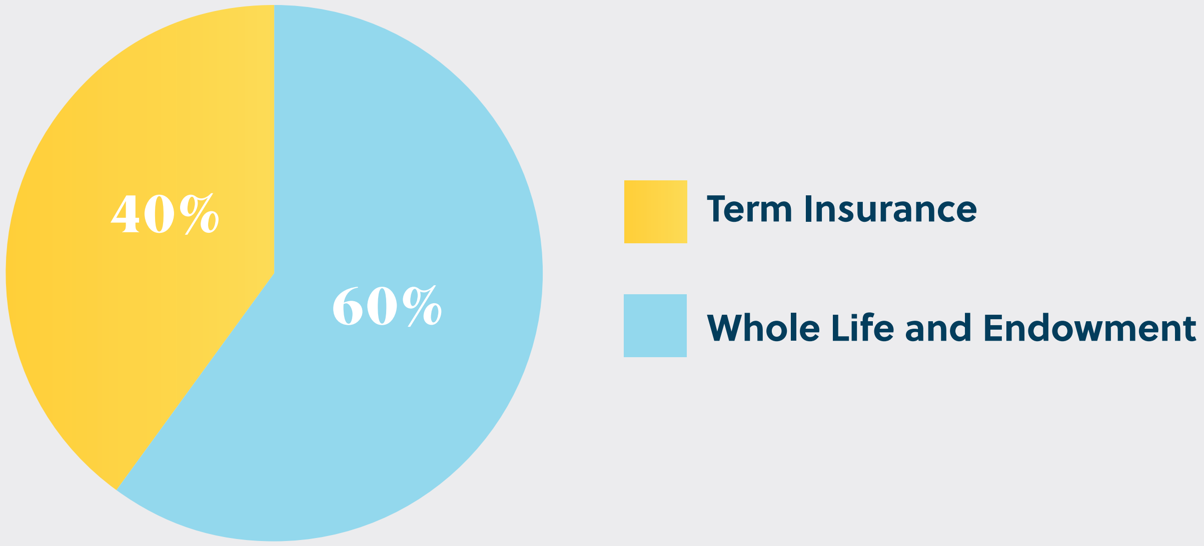
Total Individual Policies Issued



Policy Breakdown

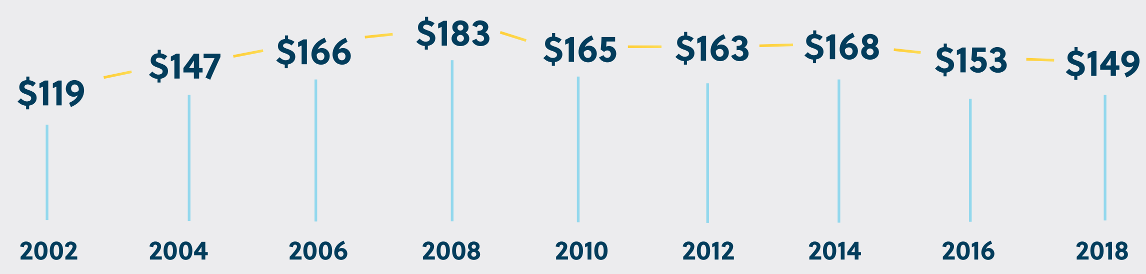
In 2016, roughly 11 million policies were issued to individuals,12 and, extrapolating growth data since 2010, about 11.3 million will be issued by the end of 2018. This represents an average growth rate of about 1.5% in issuance. Of policies purchased by individuals in 2016, about 60% was whole life and endowment, and the remaining 40% was term.[13] Whole life and endowment include preferred products such as universal life policies. However, in terms of face value, 31% was composed of whole life and endowment policies, and 69% was term.[14]

Individual Life Insurance Type



Although term policies may at first glance seem useless to life settlements, they can be quite valuable because of conversion options available in certain policy structures. Policy type data was only available for 2016, but it seems likely that the general proportions will hold true for subsequent years given the significant difference between the two categories. Average face value of policies issued to individuals has been consistently above $100,000.[15] The 2016 average face value was $153,000,161[16] and in 2018 it is expected to be approximately $149,000. Most settlement providers have a cutoff based on face value for viable policies to settle. This is because transaction costs are essentially fixed, so the lower the value of the asset being transacted, the lower the potential return.

Average Face Value Of Individual Policies Issued
(Thousands)



[11] Life Settlements (footnote 1).
[12] Life Insurers Fact Book 2017 (American Council of Life Insurers publication, 2017).
[13] Ibid.
[14] Ibid.
[15] Ibid.
[16] Ibid.

Generally, this cutoff value is $100,000. Given the past and expected average face values, the primary market seems to be producing plenty of viable polices.

Lapse rates have been relatively consistent. In 2014, 5.3% of in-force face value lapsed.[17] In 2015 and 2016, 5.4% and 5.2% lapsed, respectively.[18] While these rates might seem low, the actual amount of face value being lost is significant. For instance, in 2015 the 5.4% lapse rate effected roughly $667 billion in lapsed policy face value. It should be noted that this figure does not accurately represent lost market potential for life settlements, because not every policy that lapses is eligible for sale. In order to approximate the lost market potential, one would have to factor in the age of insureds and other indicators that might correlate to a salable policy. The Life Insurance Settlement Association (LISA) did just that and estimated about $143 billion was lapsed in 2015 by policy owners 65 and older. Clearly, there's tremendous untapped market potential that can be realized with increased consumer awareness and aggressive marketing strategies.

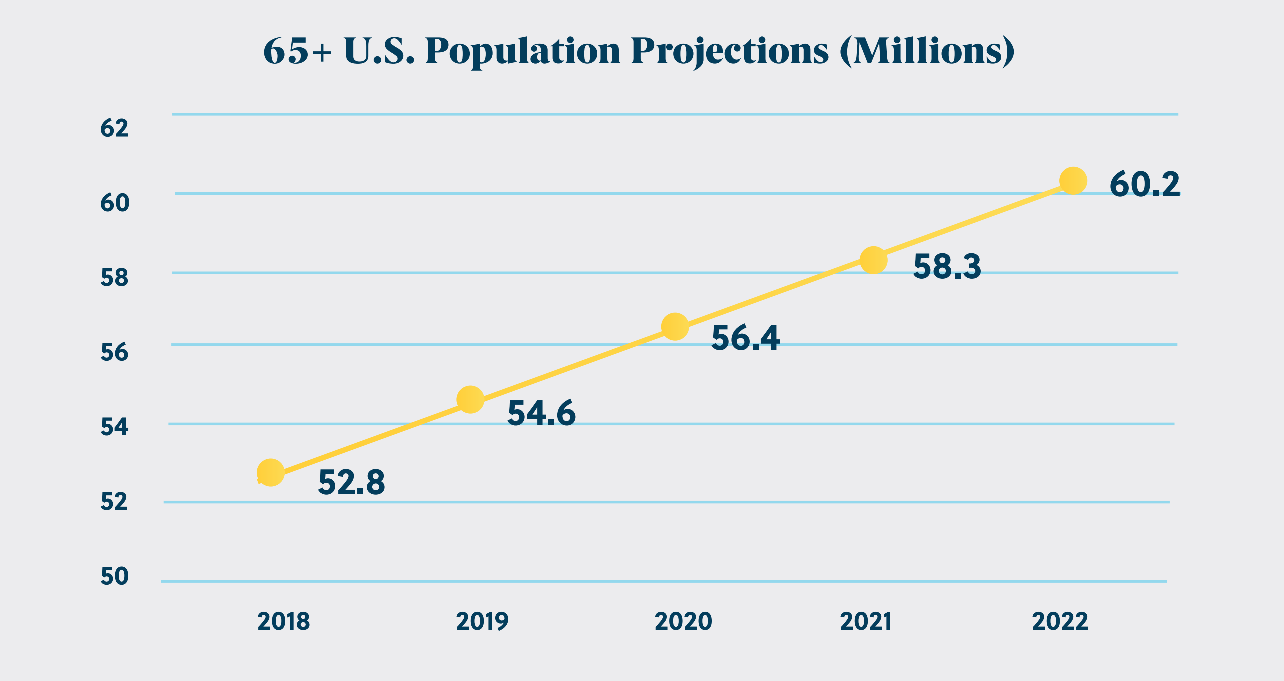
[17] Ibid.
[18] Ibid

Factors For Growth

The burgeoning life settlement industry is currently experiencing a resurgence that is fueled on many fronts. Since the 2008 recession, life settlements have been gathering steam and are now aided by demographic forces, technological innovation, primary market trends, and enthusiastic secondary market participants.

Demographics

By 2030 all baby boomers will be 65 and over, and 1 in 5 U.S. residents will be retirement age.[19] For perspective, about 15% of the population was 65 and over in 2016.[20] The nation is aging, and the full weight of the baby boomer generation is beginning to press upon age demographics in America. One chief concern is the prohibitive cost of healthcare. Many are learning that the forgotten life insurance asset can be monetized and used to finance long term care. These age trends perfectly poise life settlements to aid senior policy owners in their golden years. As American social security programs become strained and retirement savings run dry, a life settlement can sometimes provide value equivalent to selling a home.



Lifespans

In addition to the seismic demographic shifts occurring in the U.S., the phenomenon of lengthening lifespans only accentuates the financial exigencies of health care. Innovations in medicine and health care practices are increasing the life expectancies of individuals. While this is certainly a positive outcome in general, it does strain retirement plans that were predicated on shorter lifespans and will probably increase demand for the liquidity that life settlements provide.

[19] Older People Projected to Outnumber Children for First Time in U.S. History (United States Census Bureau publication, Mar. 13, 2018).

[20] The Nation's Older Population is Still Growing, Census Bureau Reports (United States Census Bureau publication, June 22, 2017).

Medical Underwriting

Increasing accuracy of medical underwriting is another position of growth for life settlements. Prior to the "Great Recession," there were some underwriting practices that produced inaccurate life expectancy estimates. Since then, advances in the industry have produced much more accurate models which are boosting profits and investor confidence. As life expectancy predictions improve, returns become consistent and demand for policies increases. This has been the story of the past 10 years, and many investment funds are constrained by policy supply rather than investor interest.

Consumer Outreach

Because of the supply constraint, perhaps the most promising growth position is in consumer awareness and marketing. Settlement providers have seen the writing on the wall, and this realization is manifesting itself in direct-to-consumer efforts and aggressive marketing campaigns. About $143 billion in life insurance owned by people 65 and over was lapsed in 2015, and surveys have indicated that 90% of those individuals would have considered a life settlement had they been aware of the option. These statistics clearly illustrate the imperative of the market.

Besides increasing the sheer volume of settlements, the direct-to-consumer effort is also reducing transaction costs and allocating more value to buyers and sellers by cutting out intermediaries. This effect not only increases the value proposition for consumers, but also reveals potential for a wider market. If transaction costs are lowered, it follows that policies with lower face values will be increasingly salable.

Increased Capital Investment

Investor interest in life settlements has surged, and the popularization of this asset class has attracted capital from a diverse spectrum of investors. This bodes well for the future, as the eventual increase in supply will be met with voracious demand. The fact that pension funds have taken an interest in life settlements is a strong endorsement that is continually emphasized by their increasing comfort with the asset class.

Legal Reform

Recently, the federal tax rules regarding life settlement proceeds changed to the benefit of the consumer. First, the tax basis of life settlements has increased to include the cost of insurance (COI) which was previously excluded from the calculation. Second, estate tax threshold has risen to double the previous level, resulting in most American families being completely exempted from "the death tax." Consequently, there is more incentive to sell life insurance originally intended for estate tax liability. These changes in tax rules significantly improve the financial advisability of a potential life settlement and strongly facilitate continued growth.

Anecdotes

Throughout the course of business, many anecdotes have emerged from individuals facing various personal problems or financial exigencies that prompted a life settlement. These firsthand accounts serve to illustrate the personal side of the industry and appraise life settlements as a service.

Terminal Illness, Spending Time with Loved Ones

A common theme across many policy owners who decide to settle is health problems. One settlement in particular involved a man who had cancer and decided to sell his life insurance policy to finance a second honeymoon with his wife. With his time running out, the man wished to live the rest of his life to its fullest, and a life settlement allowed him to do so. After years or months of cancer treatment, not many people would have the funds to embark on a second honeymoon, let alone pay for medical bills. This is what makes life settlements such a benefit to policy owners: a policy which may have seemed more like a liability than an asset can suddenly be converted into immediate gain.

In another case, a terminally ill man wanted to spend some of his last months with his family on vacation in Disneyland. To finance this, he sold his policy. Life insurance policies often have price tags comparable to that of a house. That kind of value can go far in making the final months or years of someone's life comfortable and fulfilling.

Asset Rich, Income Poor

Many people in retirement experience a decrease in cash flow but retain wealth in assets such as a house, land, securities, or life insurance. However, this can present a problem for financing everyday expenses. This was the dilemma for a senior couple who found themselves free of dependents or debt but bereft of adequate liquidity. Their need for life insurance had vanished, yet they were being forced to live frugally. Instead of providing financial security and peace of mind, the life insurance policy was straining their cash flows with premium payments that became more expensive as they aged. The solution for them was to sell their joint policy. This enabled them to alleviate the ever increasing burden of premiums, prevent the liquidation of other key assets and maintain a comfortable lifestyle.

Future of the Industry

The future of life settlements is very good. All relevant indicators point toward a bright future that promises growth and lucrative investor and consumer opportunity. Every important component of life settlements is positioned for growth: demographic trends point toward an expanding supply of policies; extended life expectancies indicate an increasing need for liquidity; improvements in medical underwriting promise increased accuracy and efficiency in policy evaluation; consumer outreach initiatives are already yielding tremendous results by capitalizing on unrealized policy supply and consumer interest; and the legal landscape is leveling, providing a regulatory equilibrium which inspires investor confidence and promotes consumer safety. The harmony of these factors portends a truly auspicious future for the industry.